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ECONOMIC AND POLITICAL DEVELOPMENT IN KOREA, 1963-67

(A Semi-Developed Version of a Developing
Book on an Underdeveloped Country)

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General Introduction

Recent Korean experience presents an intriguing subject for study because what appeared to be an economically and politically sick country has almost overnight become healthy, growing and reasonably stable. As recently as 1960 and 1961 there were student revolts and military coups, economic growth was decelerating, and the country was heavily dependent on economic and military assistance from the United States, so that many wondered whether the country could continue to exist even as a sort of permanent ward of the United States. Now, in 1967, the economy is growing at a truly remarkable rate, the political system shows evidence of increasing strength and stability, there is open discussion of terminating U. S. assistance in a few years and South Korea is assuming a position in world affairs commensurate with its size and position.

The fundamental question which one inevitably asks when confronted with these facts is: what has caused the change? Is it an accident, or just a temporary aberration? Is it the effects of a particular individual or small group who have transformed the society and given it new purpose and drive? Does it simply reflect the return to a normal state of affairs for a country and people that were pushed into a state of disequilibrium by foreign occupation, world war, partition, a civil war in which both sides were pawns in the Cold War - certainly enough disturbing forces to unsettle any country?

In our judgement there are no simple answers to the resurgence of South Korea from the doldrums and decline that occurred at the beginning of the 1960's. It has been a complex politico-economic process which has involved a mixture of good judgement and good fortune. While many of the principal actors on the

stage have not been outstanding, they have performed well, and certain underlying characteristics of environment and the social system have been favorable.

But the basic factors for change have been the transfer of political leadership to a new and very different generation, the transformation of the framework of economic policies in a way which tapped the diligence and skills of the people, and the interaction of the economic and political forces which have drawn strength from each other. It will be our objective in what follows to describe and to explain what has happened in Korea during this relatively brief period. It is our hope that this may contribute to the general understanding of the political and economic development processes and give encouragement for other countries which are facing the prospects of such a transformation.

Summary of Korean Political Development 1963 - 1967.

In the first fifteen years of its postwar independence, 1948-1963, Korea experienced four different types of government. The present government, established in 1963, emerged from the leadership of a military coup which had brought a sudden end to the most open and exuberant but short-lived period of Korean democracy, 1960-61. Korean politics since 1963 has been characterized most significantly by the transition under this government from military back to civilian rule and the restoration of a framework permitting open and generally democratically controlled political activity.

The transition in both cases has been gradual and often uneven and vacillating. Yet the overall trend has been toward a more open system and an environment generally more compatible with competing interests than the closely controlled military government of 1961-62, or even the first two years of the present government. Major institutions - parties, press and Government - have operated increasingly within this framework despite occasional and very notable exceptions. There have been other closely related developments on a more broad front: a growing sense of stability and confidence in Government, an energetic and successful economic development effort, and a gradual moderation and broadening of Korea's previously narrow focus of foreign relations.

The prospects for such developments in 1963 were not auspicious. There were some positive elements present. A great deal of pressure had been built up throughout the postwar years of the Rhee regime for economic modernization and political change. Increases in education, urbanization and the influx of foreign aid-all very substantial before 1950 but much accelerated by the Korean War and its aftermath-had contributed greatly to popular perceptions and attitudes in this regard. The April 1960 revolution moreover ushered in an exuberant if somewhat turbulent period of political democracy.

activity and much of the growth of new ideas that filled the days of 1960-61. It did not, as pointed out below, entirely reverse them. But the coup brought once again to the fore the deep-seated conflict between authoritarian and democratic tendencies in postwar Korean political ideology. The conflict continued as a prominent force after 1963 with strong authoritarian influences remaining in the new Government.

Additionally, Korea lacked in 1963 any stable cohesive civilian groups, bound together by class, religion or mutual economic interest, who could give continuity and substance to political debate and operations in a civilian structure. The absence of class or other cleavages was in many ways an advantage. But it also tended to promote factionalism, opportunism, and extreme fluidity among political groups. There was furthermore a certain despair in postwar Korean politics, reflecting anxiety and uncertainty over the very meaning of a South Korean state and manifesting itself often in an emotional but fatalistic or even self-destructive approach to politics and the solution to political issues. The coup of 1961 had aggravated this despair among many.

Finally the regime which took power in 1963, with its origins in the military coup and its narrowly won (and contested) electoral victory, was an unpopular and in many minds illegitimate one. For several years, the opposition would be bent more on bringing about its collapse than its replacement in the next scheduled election.

Against this picture, there were several factors, closely inter-related, which operated to bring about the spectrum of positive developments and greater stability which subsequently occurred. The principal determining factors were five:

1. The origins and outlook of the new Government leadership and that of the major elements of opposition.

2. The decision by the Government to use economic development as the principal basis for legitimizing its power and for developing a national consensus in its favor.

3. The emergence of strong political leadership within the Government and over the Government party by the President, Park Chung-Hee.

4. The influence on the Korean Government of the United States.

5. The strength of popular sentiment for democratic government and reaction to authoritarian controls.

1. The nature and origin of the leadership:

The leaders of the military coup in 1961 overthrew the government of Chang Myon (which had won the first election after the fall of Syngman Rhee), arrested all that government's leaders, arrested or detained many of the leaders of the April 1960 revolution, and forbade any further political activity by most previously prominent politicians. For all its actions against the political forces that had succeeded to the 1960 revolution, however, the military coup did not represent a return to the pre-1960 order. The military institution in Korea was predominantly a post-Korean War creation, and the attitudes of its leaders as much a product of the postwar period as the generation of students which had led the revolution against Rhee.

The leaders of the coup in 1961 saw themselves, and were in fact in many ways, the heirs of the 1960 revolution rather than its reactionary counterpoint. The ideology of the coup leaders was strongly nationalistic, pragmatic and managerial. There was no deep concern with theory or systems, except for a preference for authoritarian controls. They shared with the students, though carried it forward more forcefully, a disdain of the negative dependence on the U. S. and the emotional but frustrating harangues about reunification that characterized and monopolized the Rhee period. Their ultimate success in establishing rapport and later grudging recognition and support from the they lay in their to do the things that

a new generation wanted done but was ambivalent about, and their almost bull-headed confidence, even if sometimes misplaced, in their ability and the ability of the nation to do so.

The military also embodied a certain populist character. The army was basically conscript, and so large as to make military service nearly universal - though rural youth probably serve more universally than urban youth who have access to student and other deferments. It also retained a great popularity from its role in the Korean War while lacking any long tradition of internal harassment. But perhaps most important, the officer corps was largely drawn from rural families, rising in status through the military as an alternative to the more prestigious path of particular high schools and universities in Seoul. In the early months after the coup, the junta made exceptional, if misplaced, efforts to try to assist rural households. While the practical tasks of industrialization, the proximity to urban elites, and the more demanding and less popular aspects of agricultural policy tended over time to reduce this direct identification, the leadership's basic line of communication to, and interest in the rural areas was never severed.

On the opposite side, the leaders of the opposition in this period continued to be essentially of another generation. They harked back to the early politics of the independence movement and early post-independence period. They were the groups, not without nostalgic effect, who spoke of the ideals of democracy and economic development in abstract terms but who symbolized in their outlook and mannerisms the pre-revolutionary generation. They had neither particular techniques nor very clear policy predilections. Their support, moreover, was diverse. There were politicians of various stripes removed from influence by the military, ex-military who had been pushed out by power struggles within that group, students moved by idealism and frustration (but who would have also been frustrated under the opposition parties' rule as they had been

of their early coöperation with the military, and the press traditionally in opposition to Government but without loyalty to any specific opposition institution or party. There were no congealed labor, business or farm interests which could add substance and direction to issues of economic policy or which could represent a basis of popular support if the leaders could ever attain power. The opposition forces were a catch-all. And as the Government increasingly succeeded in holding out pragmatic opportunities for various groups in the economic sphere, the supporters began to drop off one by one or greatly moderate their tone.

In effect while the government leadership was mistrusted and held largely in disrespect for the manner in which it had come to power, there was no group that offered a more attractive alternative. The government, for all its resented authoritarianism, had become willy nilly the repository of all the revolutionary hopes of 1960.

2. Commitment of the Government to Economic Development as the Base of Political Strategy

One of the forces released by the April 1960 revolution was a change in orientation and approach to economic problems. Concern over economic problems had grown sharply in the latter part of the Rhee days and became the focus of much generally expressed resentment. A new emphasis on economic development was thus the one line of policy that links the Interim and Democratic governments of 1960-61, the military government of 1961-63 and the present regime. In this respect, the military and successor governments were very much heirs of the April 1960 revolution. In his later defense of the military coup, General - later President - Park emphasized first of all the economic situation of the country and recounted all the grievances that had become familiar rallying cries of intellectual and student discontent during the Rhee regime: the large amount of foreign aid "frittered away", the over-emphasis on consumer

goods, the depressing effect of aid-financed agricultural imports on domestic agriculture, the heavy dependence of the budget on aid receipts, the inefficient management of state-run enterprises, and the lack of long-range planning.

Initially the leadership's emphasis on these economic matters was an extension of its generally strong nationalist orientation, one of the essential elements in its overall desire to give the nation greater independence and greater dignity. Gradually, however, the emphasis acquired a different kind of political significance. As pressures from various sources were leading the Government into greater acceptance of a civilian structure and democratic forms of government, the leadership began to focus more directly on the use of economic development programs as the basis for achieving popular support and broad political backing. The strategy that developed was to remove, even by forcible pressure if necessary, certain key obstacles to economic modernization and to create thereby an economic momentum that would attract popular support and in its results compensate for the earlier strong-arm measures and other unpopular aspects of the regime.

The strategy in this regard was not a foregone conclusion in 1963. Many elements in the Government resisted the trend toward more democratically styled politics and were prepared to continue power by force. Many of the early junta members particularly resented the growing power of civilian bureaucrats that the economic emphasis brought about. Furthermore, there was the temptation to turn to external fronts rather than domestic issues to capture popular attention - if not a return to the anti-Japanese, anti-North Korean xenophobia of the Rhee regime, then possibly a demarche in the direction of neutralism and contacts with North Korea which many in fact suspected might happen after 1961 (a certain degree of anti-U.S. feeling was in fact whipped up by the Government in 1961). Finally, many persons in the Government, just as many outside of it, were uneasy over Korea's real economic future. These elements continued to urge -- as late as 1966 -- some relapse into the more traditional

reliance on increments of U.S. aid as a touchstone of Korean security rather than growing economic independence. But the importance of economic development in the thinking of Koreans by this period, the growing pressures for more democratic government, and perhaps of key importance the successes becoming evident in the economic sphere by 1965 all moved the Government toward carrying through the program of economic modernization and using it as the key to being able to live with, shape and influence a civilian political structure.

Economic development had political value to the Government in respect to the widespread concern over living standards and national wealth that had developed in Korea by this time, but also came to be related to the Government's response to other major issues in Korean politics. One of these was the character of Korea's foreign relations. One of the earliest nationalistic objectives of the leadership after 1961 was to reduce Korean dependence on the U.S. and to eliminate what one Korean scholar would later term Korea's "mendicant mentality". In the early period after the coup, attempts to gain non-U.S. sources of financing for Korean development were crude and hurried but met with some success in establishing economic relations with Germany, international lending bodies and some other commercial capital sources. After several basic economic reforms had been undertaken in 1964 and 1965, and once settlement of relations with Japan was achieved, Korea was in a position to attract really sizeable flows of non-U.S. capital. By 1967 these inflows were making Korea increasingly independent of concessionary U. S. aid. The rapid growth of exports, moreover, which the Government was pushing, was creating a multilateral framework for Korean foreign relations unknown in the previous decade. Korea's trading partners tripled between 1961 and 1966.

These factors contributed greatly to a new vibrancy in Korean foreign relations in this period: diplomatic forays into Southeast Asia, increasing efforts

independent dealings with Japan, and initiatives in Asian political organizations such as ASPAC. The despatch of troops to Vietnam gave a great fillip to these efforts, but that action too had a different more positive character for Koreans because of the simultaneously changing economic relationships with the U. S. Economically and politically, therefore, Korea was emerging from its traditional isolationist position. And this earned the Government considerable credit at home.

Another long troublesome and touchy issue in Korean politics, which was brought into the framework of economic emphasis, was the question of reunification. Gradually after 1963 and finally quite explicitly by 1966, the Government equated the possibilities for new steps toward reunification with the progress of economic modernization in South Korea. The time for new initiatives on unification, argued the Government, would be in the 1970's when South Korea's economic position vis-a-vis the North would be greatly enhanced, indeed would be superior to the North's. This was a very new approach in Korean politics to the reunification question. It was perhaps the leading example of how major political issues in this period came to revolve around the Government's economic emphasis.

The programs in economic development had two very distinct effects themselves on the civilianization and democratization of Korean politics. One was that the complex requirements of economic policy formation and implementation led the leadership to turn increasingly to civilian elements for expertise. The coup had already swept away for political reasons much of the older senior group of bureaucrats and this opened the high positions to a newer generation, educated in different types of schools and thousands of whom had been trained abroad during the 1950's. At the senior level, a stability in cabinet membership from 1964-1967 was maintained in sharp contrast to the revolving chairs of key ministerial posts in the previous two years. In time,

bureaucracy and key civilian administrators become one of the most important factors in the planning and carrying through of Government policies - while at the same time lessening Executive dependence on military personnel and even on its own party whose leadership was largely drawn from military and former politician circles.

A second effect was that the approach toward planning and the policies pursued by the Government in the economic field led to a reduction in the extensive direct Government control over production, investment and foreign trade and opened up considerable new areas for private initiative and action. The reasons behind these policies were purely pragmatic rather than ideological, but the effect was to make Government more a partner with private business in economic development than a director. The effect on the development of more independent pluralistic interest groups can be expected to be gradual, but the immediate effect of generating private initiative and action was noticeable in the level of increased private savings and investment and the volume of private commercial capital inflows. On the Government side, these policies eliminated ipso facto many traditional forms of Government corruption and favoritism and thereby many of the earlier sources of criticism. While alternate sources of under-the-table revenue were developed, the general economic system was considerably freed from the more pervasive types of political manipulation.

The general strategy of the Government in using economic development as the base of its political power succeeded by the end of its first four years in office. For two years, until 1965, Government security and authority rested largely on the presence of force and the weakness of its opponents. The issue of normalization of relations with Japan, which came to symbolize both the Government's determination to push through its major policy reforms, and on the other side all the resistance in the country - political and psychological - to a major new turn of outlook was but the last major

confrontation between the Government and a unified popular opposition. After the settlement with Japan in 1965, attention turned increasingly and with rather amazing speed to what were becoming sizeable, in some areas, spectacular evidences of real economic growth. By this time the Government too felt more confident, and consequently somewhat less concerned about the activities and the potential challenge from its opponents.

In 1967, President Park ran for reelection, and capped this general strategy by campaigning almost exclusively on his record of economic achievements and the promise of further development under The Second Five Year Plan which was just beginning. He won by an impressive majority over the same opponent whom he had so narrowly defeated four years earlier. Gains in urban support also showed that the Government had overcome serious sources of opposition to it among the more articulate groups in the society. Without doubt in the minds of most voters lingering resentment over military influence, recently uncovered cases of corruption, and the still strong authoritarian element that showed, if less frequently and more subtly, in Government actions were subordinated to the momentum of material achievements and general modernization of the country, the increased political stability, and the evidence of concomitant growing government moderation represented in the incumbent regime.

3. Emergence of Presidential Leadership:

The strategy of emphasis on economic development as the prerequisite to national strengthening generally emerged by 1967 as the chief issue in the campaign and the real test of the legitimacy of the regime. But in the interim, the most conspicuous political struggles that had taken place revolved - with only one great exception (the Japan issue) - around the relative degree of authoritarian control exercised by the Government. If this issue had not been settled in favor of moderation, it is questionable that the degree of national

been achieved, or that these programs would have even been able to receive the same emphasis within the Government. Two forces acting upon the political mood of the country in this regard -- U.S. influence and popular sentiments about democracy -- are discussed in sections 4 and 5 below. But the ability and willingness of the Government to accommodate itself to these forces rested very much on the reaction and attitudes of the President.

Park Chung-Hee was from the "older generation" of coup leaders, the one-star generals who gradually took over the reins of the Military Government from the colonels and gave the new Government its essentially managerial and output oriented cast. Park lacked any measure of charisma or popular appeal. His strength lay in his resoluteness and later his ability to balance and play off the divisive factions in his own entourage as well as outside the Government. More pragmatically than ideologically - for Park himself tended more toward authoritarian discipline than democracy in politics - he became a source for moderating the more extreme elements within the Government.

Syngman Rhee had used the Korean Presidency in his twelve year incumbency as an independent institution, and had only reluctantly established a Government party at all several years after attaining office. Park had a Government party from 1963, but he too made the Presidency independent of any one source of support. He carefully balanced the factions within the party - one of which, deriving from the early coup leadership, was strongly authoritarian - created several different and competing sources of intelligence and follow-up (e.g., the Army, CIA and special assistants), and relied also on independent civilian administrators in the Cabinet who acquired real power in their extended tenure of office and who for several years were not even asked to join the party. The key economic administrator, the Deputy Prime Minister, was kept on in fact over the objections of most Government party members. In this process of

to his the power

authoritarian elements within the Government and the Government party. Gradually as he gained confidence in the Government's progress, he held back also from overly oppressing the Opposition and came to find the intricacies of constitutional rule generally to his advantage.

The effect of this strategy was somewhat to weaken the Government party, divorce it more from involvement in establishing Government policy and deprive it of a very constructive role. On the other hand, the more opportunistic, autocratic, and in some cases purely selfish elements in the Party were also checked from leading the Government down the disastrous path that Rhee's Liberal Party had taken it in the late 1950's.

Another effect was to strengthen considerably the policy role and the professional orientation of the bureaucracy and to institutionalize procedures and programs that would later be more invulnerable to the vicissitudes of party politics. As pointed out earlier, the working alliance between the Executive and a technically oriented bureaucracy proved to be one of the most important elements in carrying through major Government programs.

Finally, Park relied less and less on direct military support. Retiring military officers still often receive comfortable slots in government-owned corporations or within the Party, and the Army's Counter-Intelligence Corps continues to play one of the key roles in internal intelligence and even politics. Army sympathy and support still lies clearly with the regime. But the military as a whole retired from politics after 1963.

In sum, for a combination of reasons - personal, pragmatic, nationalistic, and as pointed out below the influence from the U.S. - President Park emerged as a major force leading the country back to civilian institutions of control, arresting the more extreme pressures for authoritarianism, and strengthening the economic development-oriented thrust of the regime.

4. U.S. Influence

The discussion above has stressed the pragmatic rather than the ideological

motivation behind much of the developments of this period. One important factor that was very much ideological in content, however, was the influence of the U.S. It is doubtful that any country has been bound up quite as deeply with another independent country as the U.S. has been with Korea since 1945. With regard to its effect on the events of 1963-67, U.S. influence was of two kinds. Through the American Military Government from 1945-48, the direct involvement in the Korean War, and the massive aid programs afterward, the U.S. had shaped extensively Korea's education system, its postwar political values and ideology, and in several cases the attitudes and abilities of key groups. An almost religious attachment to democratic principles was taken over from American values by post-war intellectuals and students and they being too acute to miss the contradictions between the slogans of the Free World and the fact of authoritarian rule in their own country - became for them both a rallying cry against Government and, in harder times, one more counsel of despair. Similarly, the U.S. trained from the ground up the Korean military; there is scarcely a senior officer who has not been through an American staff college. Thousands of civilian government workers also received training in the U.S. and many more were long exposed to U.S. advisors. If a strong authoritarian trend exists in Korean political ideology, its equally strong counterpart has been nurtured almost from the beginning by the influx of U.S. concepts and values.

A second more specific U.S. influence operated on Korean politics in this period. Immediately after the coup and with consistency throughout the next two years, the U.S. Government made very clear its position in favor of a return to civilian government and used its influence in this direction. When the military leadership wavered in this regard one last time in 1963, the U.S. reaction was sharp and outspoken. Some Koreans feel it was a decisive influence. After the establishment of the new government U.S. influence continued to be important in the general direction of political development. Opportunities for exerting

this influence improved moreover. Relations had been strained between the Military Government and the U.S. After 1963 relations between the new Government and the U.S. became increasingly close. In an atmosphere of growing mutual confidence U.S. counsel was often solicited and quite forthrightly given on many crucial domestic issues. Almost invariably when a crisis developed between Government and opposition, or Government and students, U.S. counsel was for accommodation, for actions that would maintain constitutional government and that would help obviate a resort to force or extreme suppression. U.S. relations, moreover, were closer with the more moderate elements within the Government than with the more extreme elements. U.S. representatives lectured on the value of preserving balance and drew attention on more than one occasion to unfavorable international reaction that would be generated by any expressively dictatorial practices.

The level of U.S. political influence in this regard derived from its overall importance to Korea militarily, diplomatically, and economically. But the U.S. was also in a position to support specifically through both positive and negative incentives in the aid program, the Government's economic emphasis. And U.S. policy in this period was more unified on the importance of such emphasis in Korea vis-a-vis strictly military and security objectives than it had been in any previous period since 1950. This was not lost on the Koreans and increasingly coincided with their own priorities.

5. Popular Reaction to Authoritarianism:

No analysis of postwar Korean political development can fail to take into account the importance of the continuous struggle between authoritarianism and democracy in Korean politics. There is no prewar tradition of democracy in Korea, but it has been absorbed into the political culture with amazing rapidity and depth since 1945. It is a very lively issue. The institutions which have played the most critical overt role in this regard and which keep it alive are the press and the students - both influenced by and often the most effective

outlet for the intelligentsia.

The definitive battles over the limits of government power under the present regime involved directly these two groups. Anti-Government student demonstrations in 1964 on the Japan issue, which were goaded on by the press, had finally led to a declaration of martial law. As the price for lifting martial law, the Government demanded two laws aimed at controlling these groups in the future. The laws, known as the Press Ethics and Campus Protection laws became the focus of a nationwide political struggle. The resistance from the press and the intellectuals proved unyielding and more effective in this case than on the issue behind the demonstrations themselves. Even with a decisive legislative majority in the Assembly the Government felt obliged to back down. The Press Ethics law was passed but never enforced. The Campus Protection bill was withdrawn. These were critical battles. They affected the most important and influential civilian political institutions in the country, those through which opposition and criticism of the Government could find ready and most influential expression. Though the struggles over autocratic controls would continue, these battles appeared to represent the turning point in the fight to establish the basic premises of an open political system.

In these confrontations, and later after the irregularities in the Assembly elections of 1967, it was clear that a gross violation of political democracy represented one of the few unifying and mobilizing forces behind diverse opposition elements. The Government soon found it prudent to avoid this kind of confrontation wherever possible and to seek control instead through developing genuine consensus in areas such as economic progress and a growing desire for political stability. After 1965, moreover, the points of disagreement between the Government and the populace were narrowed. Struggles over political democracy thus became fewer and of less grand scale after 1964, and -- judging from the reaction to the purportedly rigged Assembly elections

of 1967 -- somewhat defused of their earlier emotional furor. There was in sum by 1967 more confidence in the system even among the more traditional voices of distrust.

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In the interplay of these five factors during this period, it is clear that critical to the success of the Government's political strategy, and to the development of political stability generally, were the evidences of economic change that were becoming apparent as early as 1965 and the beginning of an economic momentum that began to affect Korean attitudes on a wide variety of political and economic issues. The successful economic development of this period constitutes an important story in itself. It also, however, helps give insight into the nature of the Government's political strategy in this period and quite significantly into the type of interaction between Government direction and popular participation that took place in the economic sphere.

Summary of Economic Development and Its Causes

South Korea since 1963 has attained one of the highest growth rates of national product in recent world experience and has entered upon a structural transformation leading toward a modern, industrial, self-supporting economy. It has been rare for a country not confronted by some special circumstances such as discovery of a major new national resource, or spillover effects from a nearby war to achieve such rapid progress. Admittedly Korea has benefited to some extent from the Vietnam war, especially in 1966 and 1967, but the period of high growth had started before this and the "Vietnam effects" have not been large in relation to the changes that have occurred. The main stimuli of development have been internally generated and they have played upon the strengths in the Korean environment which in turn have responded vigorously.

Growth of Output

South Korea's real gross national product has more than doubled since the end of the Korean War in 1953. During the same period the population has increased from about 21.5 million to 29.2 million in the 1966 census, so that real GNP per capita has risen by roughly two-thirds since 1953. Much of this improvement in output per capita has occurred in recent years (1963-66) when the growth rate has averaged 9.6 percent per annum. This is in marked contrast to the preceding four years, when average annual growth was only 3.5 percent, and is even well above the post-war recovery period (1953-58).

The recent growth has been manifested in a dramatic improvement in primary production and an accelerated expansion of industrial (secondary) production. The tertiary or service sectors have tended to move with the overall growth rate. In both the primary and secondary sectors there has been diversification of production, but at the same time continued substantial growth of the traditional commodities. Thus the production of grains has gone up by 3.5 to 4 percent.

TABLE I
Growth of GNP, 1953-1966

	GNP in Constant 1965 Prices (billion Won)	Growth Rate (Percent)
1953	421.9	
1954	447.4	6.0
1955	474.5	6.1
1956	480.5	1.2
1957	522.7	8.8
1958	551.7	5.5
Average 1954-58		5.5
1959	575.8	4.4
1960	589.1	2.3
1961	613.6	4.2
1962	635.0	3.5
Average 1959-62		3.6
1963	693.0	9.1
1964	750.3	8.3
1965	805.9	7.4
1966	913.8	13.4
Average 1963-66		9.6

Source: Bank of Korea, Revision of National Accounts, 1953-66

per year, but commercial crops and fishing have gone up much faster. Similarly textiles and other light industries have expanded steadily but a number of new industries such as chemicals, oil refining and basic metals have grown by leaps and bounds.

The main impetus for growth appears to have been quite different for the two sectors. Primary production has responded to a sizeable injection of new productive inputs which have been channeled to the producers through an extensive network of government agencies. Improved organization to deliver the inputs in the right amounts at the right time and greater effectiveness in stimulating the use of new inputs have been critical factors in raising agricultural production.

In the manufacturing area a pervasive system of import controls and end user allocation of imported intermediate goods has been sharply curtailed. This has meant increased reliance on market forces and greater room for private initiative. But there was relatively little change in the level or composition of input use after these changes. The main positive stimulus for increased output was a generalized system of export incentives that resulted in rapid growth of exports of manufactured goods. This was accomplished initially by fuller and more efficient use of existing productive facilities, but, as more plants approached capacity operation, eventually led to substantial new investment and the reappearance of shortages in the infrastructure areas of power and transportation.

Thus the government had a major and direct role in bringing about a change in the productive technology in the primary sector, but in manufacturing it was a more indirect role of creating incentives for the growth of demand and reducing barriers to private response.

TABLE II
Percentage Shares and Rates of Growth
of GNP by Industrial Group**

	<u>Average Shares of GNP</u>			<u>Average Rates of Growth</u>			
	<u>1954-58</u>	<u>1959-62</u>	<u>1963-66</u>	<u>1954-58</u>	<u>1959-62</u>	<u>1963-66</u>	<u>1954-66</u>
Agriculture, Forestry and Fisheries	45.8	41.8	39.4	4.0	.8	8.4	4.2
Secondary Industry*	14.8	18.5	22.9	13.9	9.5	15.2	12.9
Tertiary Industry	39.4	39.7	37.7	4.7	4.6	7.8	5.6
Total	100.0	100.0	100.0	5.5	3.6	9.6	6.2

*Includes mining, quarrying, manufacturing, construction, electricity, water and sanitary services.

**Based on Gross National Product series in 1965 constant market prices.

Source: Bank of Korea, Revision of National Account, 1953-65.

Primary Production

While the recent record of expansion of primary production has been remarkable, there are two tempering considerations. In part the accomplishments since 1963 are made doubly impressive by comparison with the preceding four years when there was practically no growth of real primary output. This poor record was due in part to adverse weather conditions, especially in 1962, when output was clearly below the trend. Part of the recovery in the following two years may have reflected a return to the longer run trend. The second consideration is that the statistics on agricultural crop production have been revised substantially in recent years to reflect new and better survey data. These revisions may well have some bias in the direction of high estimates for the current or recent years and low estimates for earlier periods, but it is extremely difficult to test for such bias. Neither of these sources of possible distortion is likely to be of sufficient magnitude to invalidate the conclusion that growth of primary production has been high over the past four years, but merely to indicate that it may not have been quite as sharp a change from the preceding four years as the statistics indicate.

Much of the impressive growth of primary output which has occurred in recent years has been in the non-grain crops, in livestock, sericulture and fisheries. This has resulted in a decline of the relative importance of grains in total primary production and a more diversified pattern of production. It also indicates an increased commercialization of the primary sectors and probably a better balanced diet for the population as a whole.

The evolving structure of primary output is indicated by the relative shares of major components of total output for 1960 and 1963 and estimates of total domestic output for 1965.

Grain production has accounted for roughly 60 percent of total primary output (see Table III), with rice averaging about 45 percent and the winter

TABLE III

Shares of Total Output of the Primary Sectors
(Value in billions of won at current prices)

	1960		1963		1965	
	Value	%	Value	%	Value	%
1. Rice	52.0	49.3	128.9	49.3	142.6	39.0
2. Barley and Wheat	<u>15.9</u>	<u>15.1</u>	<u>36.8</u>	<u>14.1</u>	<u>62.6</u>	<u>17.1</u>
Sub total	67.9	64.4	165.7	63.4	205.2	56.1
3. Vegetables, Pulses and Potatoes	13.1	12.4	38.4	14.7	64.6	17.7
4. Fruit	2.2	2.1	4.0	1.5	7.9	2.2
5. Industrial Crops	<u>2.9</u>	<u>2.7</u>	<u>6.9</u>	<u>2.6</u>	<u>14.3</u>	<u>3.9</u>
Sub total	18.2	17.2	49.3	18.8	86.8	23.8
6. Livestock and Sericulture	8.8	8.3	29.0	11.1	40.1	11.0
7. Forestry	6.8	6.4	9.3	3.6	17.7	4.8
8. Fisheries	<u>3.8</u>	<u>3.7</u>	<u>8.1</u>	<u>3.1</u>	<u>16.2</u>	<u>4.4</u>
Sub total	19.4	18.4	46.4	17.8	74.0	20.2
TOTAL	105.6	100.0	261.4	100.0	366.0	100.0

Source: Bank of Korea, Input-output tables for 1960 and 1963 and sectoral output estimates for 1965. Rice, barley and wheat output are adjusted. See Appendix B.

grains--barley, wheat and rye--about 15 percent. All other crops have averaged 20 percent in recent years and the same share is attributable to the combination of livestock, sericulture, forestry and fisheries. Changes in the relative shares of total output over time are affected by the fact that in 1960 and 1965 rice output was below the trend, while in 1963 rice was high but barley and wheat were low. Still it seems clear that the relative share of grains is declining, while that of the other crops, especially vegetables and industrial crops, and livestock-sericulture is rising.

A clearer picture of the relative growth of the different field crops can be obtained by using average production for several years at the beginning and end of the period, expressing output values in constant prices and deriving growth rates. This is done in Tables IV and V for the main categories of farm crops. It is now seen that the compound annual growth rate for crop production from 1960-61 to 1964-65 was 5.4 percent. Rice, barley and wheat and pulses had lower growth rates of 3 to 4 percent per annum. At the other extreme were a 23 percent rate for potatoes, 15 percent for fruit and tobacco and 8 percent for vegetables. It is noteworthy that both potatoes and tobacco were given special encouragement by the Government in the form of high price supports. The tables also show that the grains (rice, barley, wheat and other grains) accounted for only 55 percent of the total growth of real output of farm crops. Thus the other crops, although they still amounted to less than one-fourth (23 percent) of the total value of crop output at the end of the period, contributed nearly half of the growth of output between 1960-61 and 1964-65.

Inputs for the Primary Sector

Over the 10 year period from 1956 to 1965 the cultivated land area increased by 13 percent and the cropped area by nearly 19 percent after taking into account double cropping. Much of the increase in cultivated area occurred

TABLE IV

Average Values of Farm Crops and Shares of
Total Crop Output 1960-61 and 1964-65

	<u>1960-61</u>		<u>1964-65</u>	
Rice	126,179	63.1	144,795	58.7
Barley and Wheat	35,592	17.8	41,724	16.9
Other Grains	2,496	1.2	3,269	1.3
Pulses	5,682	2.8	6,604	2.7
Potatoes	6,417	3.2	14,708	6.0
Fruit	3,017	1.5	5,251	2.1
Vegetables	16,010	8.0	21,798	8.8
Tobacco	<u>4,927</u>	<u>2.4</u>	<u>8,639</u>	<u>3.5</u>
TOTAL	200,318	100.0	246,836	100.0

Prices are average prices received by farmers for years 1960-65.

Growth Rates and Contribution to Growth of Farm Crop Production
of Major Crops 1960-61 to 1964-65

	Growth Rate ^a	Percent of total growth of output
Rice	3.5	40.0
Barley and Wheat	4.0	13.2
Other Grains	7.0	1.7
Pulses	3.8	2.0
Potatoes	23.0	17.8
Fruit	15.0	4.7
Vegetables	8.0	12.4
Tobacco	15.0	8.0
	<hr/>	<hr/>
TOTAL	5.4	100.0

^a Growth rates are compounded annual rates.

after 1960 and was mainly in the upland areas.¹ The expansion of double cropping on the other hand was mainly on paddy-land and reflected better water control.

The total supply of fertilizer nutrients is estimated to have increased as follows:

<u>Year</u>	<u>Metric Tons</u>
1961	308,494
1963	350,939
1964	370,064
1965	485,859
1966	534,693

This is an expansion of roughly 80 percent in 5 years. During the same period there has been a more than four-fold increase in the use of pesticides and a large expansion in the application of limestone to counteract the natural acidity of Korean soils.

Coincident with this expanded supply of inputs and in part perhaps creating the demand was a shift in relative prices in favor of agriculture after the poor crops of 1962 and 1963. Although the parity ratio of prices received and paid by farmers has been gradually declining since the peak in 1963, these have been years of generally high yields so it is surprising that farm prices have not declined more rapidly. Government measures to reduce

¹ United States Operations Mission to Korea, Rural Development Program Evaluation Report, Korea 1967, p. 46

land. These programs not only provided offseason employment to those farmers who worked on the land development projects, but also gave new land to the farmers. They have been both productive and popular.

Secondary Production

The pattern of growth of secondary production is indicated by the industrial production index. According to the index, there was approximately a doubling of total industrial production between 1954 and 1959 and another 100 percent increase between 1959 and 1965. Of the three major subdivisions, mining grew most rapidly in the 1950's and slowed down somewhat in the 1960's. Manufacturing production grew slowly in 1960, 1961 and again in 1964, but in the other recent years has expanded by about 15 percent. The index of electricity production dropped significantly below the general index from 1960 through 1963 which were years when the shortage of electric power was a serious constraint on industrial growth. Since 1964 the electricity index has gone up sharply. Despite this rise in the amount of electricity supplied, shortages were again becoming acute in 1967.* This can be seen by comparing the base weights in the 1960 and 1965 manufacturing production index as shown in table 6. These indicate clearly that although the lighter, consumer goods industries continued to account for the major share of manufacturing, that share had declined from 60 to 55 percent between 1960 and 1965. Textiles, which are Korea's most important industry group dropped from 23.4 to 19.4 percent of the total and most of the other light industries fell proportionately. The two exceptions were beverages and tobacco which together moved up from 8.3 to 11.9 percent of the total.

In the heavier industry categories, the most notable increases are in chemicals, petroleum and coal products, basic metals and electric machinery.³

*Manufacturing production has expanded most rapidly in the heavier, more capital-intensive or technically complex areas since 1960.

² The indicated decline in the share of glass, clay and stone products looks suspicious because this industry has, according to the manufacturing index, grown more rapidly than manufacturing as a whole. It appears that

TABLE V

Industrial Production Index, 1954-1966

(1965=100)

	Total	Mining	Manufacturing	Electricity
(Weight)	(100)	(10.5)	(83.3)	(6.2)
1954	24.2	13.6	26.5	27.7
1955	28.9	17.0	32.0	27.0
1956	35.4	22.0	38.7	34.0
1957	40.8	29.7	43.5	40.7
1958	45.0	31.1	48.2	46.5
1959	51.6	43.3	53.6	51.9
1960	56.2	56.9	56.3	52.2
1961	59.4	64.5	58.6	54.5
1962	69.5	76.6	68.6	60.8
1963	78.6	87.4	77.6	67.9
1964	84.9	96.6	82.9	83.1
1965	100.0	100.0	100.0	100.0
1966	117.3	110.8	117.9	119.6

Table VI

Weights for Components of Manufacturing Production
Indexes for 1960 and 1965

	1960	1965
Light Industry		
Processed foods	9.8	8.5
Beverages	4.2	5.0
Tobacco	4.1	6.9
Textiles	23.4	19.3
Footwear, wearing apparel	4.8	3.5
Wood and Cork	5.7	4.2
Furniture and Fixtures	1.1	.8
Printing and Publishing	4.8	4.2
Leather Products	.4	.6
Miscellaneous	<u>1.6</u>	<u>1.9</u>
Sub-Total	59.9	55.0
Heavy Industry		
Paper and Paper products	3.1	3.7
Rubber Products	5.8	3.1
Chemicals	5.9	8.8
Petroleum & Coal Products	3.0	4.9
Glass, Clay & Stone Products	9.0	6.5
Basic Metals	2.9	4.8
Metal Products	3.1	2.6
Machinery	2.8	3.4
Electric Machinery	1.3	2.8
Transport Equipment	<u>3.2</u>	<u>4.3</u>
Sub-Total	<u>40.1</u>	<u>45.0</u>
TOTAL	100.0	100.0

While the growth of exports of manufactured goods has provided much of the stimulus for the expansion of the manufacturing sector, the exports have emanated mainly from the lighter industries which, as we have seen, have generally been growing less rapidly than the heavy industries. The following table shows that significant shares of the increased output from fishing, minerals other than coal, processed foods, textiles, plywood, leather and rubber products, basic chemicals and non-ferrous metals products went into exports between 1963 and 1966. On the other hand relatively little exports originated from any of the heavier industries except for the basic chemical and non-ferrous metals sectors. This evidence suggests that if it had not been for the new exports there would have been much slower growth in the light industries. But these industries in turn generated much of the demand for products from the heavier industries. Thus the exports have indirectly promoted the expansion of the heavier industries and a deepening of the industrial structure.

Despite the shift toward heavier industries, the incremental capital-output ratio in manufacturing has actually declined in recent years to a surprisingly low level. This suggests that not only has the new investment since 1963 been relatively efficient but that there has probably been fuller use of previously existing plant and equipment, especially that which was put in place in the 1959-62 period.⁴

² (continued) either there has been a change in the components of this industry group or that the 1960 weight was excessive. Comparison with the input-output tables for 1960 suggests that the latter is the case, since value-added and total output of the glass, clay and stone product sectors in the I-O tables are only 3.0 and 2.3 percent of the respective totals for manufacturing.

³ The average ratio for the whole period since 1954 has been quite low,

TABLE VII Relative Growth of Exports and Output from 1963 to 1966

<u>Sector</u>	<u>Percent Change of Output</u>	<u>Percent Change of Exports</u>	<u>Change in Exports as % of Change in Output</u>	<u>Exports as % of Output 1966</u>
1. Rice, barley & wheat (polished)	39	1088	3	1
2. Other agriculture	16	51	5	2
3. Forestry	54	-10	-2	1
4. Fishery	19	121	48	14
5. Coal	59	9	6	2
6. Other minerals	54	194	111	59
7. Processed foods	26	233	31	9
8. Beverages & tobacco	57	47	2	.2
9. Fibre spinning	29	146	27	10
10. Textile fabrics	71	346	28	15
11. Finished textile products	15	628	148	22
12. Lumber & plywood	75	465	78	41
13. Wood products & furniture	-18	97	*	6
14. Paper products	30	59	3	2
15. Printing & publishing	67	34	0	.5
16. Leather & leather products	13	1848	24	3
17. Rubber products	58	463	26	11
18. Basic chemicals	33	811	25	7
19. Intermediate chemicals	22	-61	-7	1
20. Finished chemical products	21	-55	-	.3
21. Chemical fertilizer	58	-	-	0

TABLE VII Relative Growth of Exports and Output from 1963 to 1966

<u>Sector</u>	<u>Percent Change of Output</u>	<u>Percent Change of Exports</u>	<u>Change in Exports as % of Change in Output</u>	<u>Exports as % of Output 1966</u>
22. Petroleum & coal products	152	11	0	0
23. Cement	147	7611	3	2
24. Other ceramic, clay & stone products	35	24	1	2
25. Iron & steel	69	-	-	0
26. Steel products	56	25	12	22
27. Non-ferrous metals & primary products	4	257	375	19
28. Finished metal products	40	67	3	2
29. Nonelectrical machinery	23	-1	0	2
30. Electrical machinery	132	142	4	4
31. Transport equipment	103	62	0	2
32. Miscellaneous manufacturing	43	6	0	6

*Because of the negative change of output this relation is meaningless.

Derived from the 1963 input-output tables and estimates of 1966 output prepared by the Bank of Korea and 1966 exports by I-O sector prepared by the Economic Planning Bureau.

TABLE VIII
Ratios of Gross Fixed Investment
to Increase in Value Added
in Manufacturing*

1954-58	1.7
1959-62	2.2
1963-66	1.3
1954-66	1.6

*The relations are based on a one year lag in the effect of investment, i.e. the investment of 1965 is related to the change in value added of 1966 as compared with 1965.

Table IX
Percentage Shares of
Expenditures on Gross National Product*

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Private Consumption	88.3	88.8	86.1	89.6	84.8	82.7	83.0	78.5
Government Consumption	12.1	12.1	11.4	11.1	10.6	9.5	9.4	9.3
Total Consumption	<u>100.4</u>	<u>100.9</u>	<u>97.5</u>	<u>100.7</u>	<u>95.4</u>	<u>92.2</u>	<u>92.4</u>	<u>87.8</u>
Fixed Investment	10.3	10.5	10.6	13.2	15.3	12.4	14.6	20.9
Change in Stocks	-.3	.1	1.3	-1.0	4.5	2.8	.1	1.8
Gross Domestic Investment	<u>10.0</u>	<u>10.6</u>	<u>11.9</u>	<u>12.2</u>	<u>19.8</u>	<u>15.2</u>	<u>14.7</u>	<u>22.7</u>
Exports of goods and services**	4.8	5.2	6.2	6.8	6.7	7.4	9.5	12.8
Imports of goods and services	15.2	17.0	14.8	18.9	22.1	15.2	16.0	22.4
Net Foreign Balance	<u>-10.4</u>	<u>-11.8</u>	<u>-8.6</u>	<u>-12.1</u>	<u>-15.4</u>	<u>-7.8</u>	<u>-6.5</u>	<u>-9.6</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Based on GNP series in 1965 constant market prices

**Includes net factor income from abroad

Components do not add to total because of small statistical discrepancy

Source: Bank of Korea, Revision of National Accounts, 1953-66.

Table x

Investment and Saving as Shares of GNP*

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Gross Domestic Investment	10.7	10.8	13.1	12.7	18.4	14.5	14.7	21.6
Private	7.0	7.5	8.7	7.5	14.7	10.7	10.8	16.8
Government	3.7	3.3	4.4	5.5	3.6	3.8	3.8	4.7
Foreign Saving	7.3	8.5	8.5	10.8	10.7	7.1	6.5	8.6
Loans	-.4	-.4	-.6	1.3	3.8	.8	-.2	3.0
Transfers	7.6	8.9	9.1	9.5	6.9	6.3	6.7	5.6
Domestic Saving	3.4	2.4	4.5	2.2	7.6	7.5	8.2	12.9

*Based on current price GNP series

Source: Bank of Korea, Revision of National Accounts, 1953-65

in general and on concessional assistance in particular.

Such structural changes are widely recognized as essential elements in the process of transforming an economy from impoverishment and stagnation to self-sustaining growth. They strike at the barriers to growth recently characterized by Chenery and Strout as the investment, saving and foreign exchange constraints. The remarkable aspect of Korean experience has been the speed with which these changes have been brought about. Although it is still too early to conclude that the transformation is irreversible, there is no evidence of backsliding and no apparent grounds for anticipating a reversion. If the current patterns do continue, Korea will have moved from a low investment, low saving and low export economy to a high investor, substantial saver and high foreign exchange earner in one of the briefest periods of recent record.

The reasons for these rapid changes are several. In part the very unfavorable structural relations of the past - the minimal savings and export levels, the heavy dependence on foreign aid to sustain only moderate levels of investment - meant that even modest improvements looked good by comparison. A fifty percent increase in exports or savings from a very small base is less difficult than a comparable increase from a large base. Furthermore, the poor performance of the past was to some extent the result of various policies and institutional arrangements which, when removed or changed, contributed to the recovery.

There were also certain underlying strengths in the Korean economy which were supportive conditions for the rapid growth and structural change. A vigorous, relatively well-educated, reasonably frugal population provided an abundant and productive labor force. Sizeable unemployment and absence of unions or other labor organizations have kept real wages low in relation to the average productivity of labor as compared with many other developing countries.

But the main forces which activated the processes of growth and structural transformation were the series of positive policy measures specifically directed

toward expanding exports, savings and investment, and the weaving together of economic and political strategies in a mutually supporting manner. These policies and strategies were not fully articulated in advance and introduced full blown at some given point in time. Rather they were evolved and implemented sequentially as the opportunities for action were perceived and then acted upon. Not only did the Government move quickly to seize the opportunities but it also moved forcefully. The tendency was to try to overshoot the mark rather than be caught short in providing incentives for such things as exports or savings. This probably resulted in some inefficiency in that policy measures may have been stronger than would have been necessary if there had been more knowledge or analysis of the particular situation toward which the policy was directed. On the other hand, the "overkill" approach did produce results which have undoubtedly far exceeded their costs. More cautious measures might well have failed.

Causes of Structural Change

The Korean approach to removing the investment, saving and import constraints deviated from orthodox lines in recent years with highly favorable effects. This obviously raises some questions about the appropriateness of the conventional measures, or the validity of the assumptions on the basis of which such measures have been recommended.

Accelerating Investment

Orthodox policies to increase investment and improve the allocation of investment include holding down the costs of capital goods (through favorable exchange rates, tax exemption, direct subsidies and low interest rates on longer term loans for investment), doing better and faster project development and appraisal, and improving the organization for implementation of projects. All of these measures tend to result in greater involvement of domestic in the of invest

making and execution. This involvement may be justified on the grounds that market forces are not a good guide for investment, but this should not obscure the fact that government decision-making is often slow, costly and conducive to corruption. In particular the foreign assistance agencies are extremely slow moving so that the time lag between original proposal and full operation of major capital projects which they finance is typically 5 to 10 years.

In countries which are growing slowly, such lags may not be serious and the time spent on making better decisions may be worthwhile. But when rapid growth is occurring, delays in carrying out investments, especially in critical areas of infrastructure, can stifle the growth process. In such cases, the growth of demand becomes the primary criterion of investment and the time dimensions of decision making and implementation are critical.

To speed up the investment process and increase the total volume of investment, Korea has tried to increase the general availability of domestic and foreign credit, including that from private sources which inevitably carries harder terms, and has moved part way in the direction of market forces rather than Government decision-makers as the final arbiter of investment choice. The specific policy measures employed by Government to encourage the inflow of private foreign capital were: guarantee of repayments on foreign loans, liberal provisions for repatriation of profits and initial investment on foreign equity capital, tax exemptions on foreign investment, and finally aggressive efforts by the Government to obtain commitments of private and semi-public loans from foreign countries.

The first moves to stimulate the inflow of foreign capital were taken in 1962 and 1963, resulting in a sizeable inflow in the latter year. Then domestic inflation and preoccupation with counter-inflationary measures caused a slow-down of investment and foreign capital inflow for several years. But in 1965

both domestic and foreign in 1966. In May of 1965 it obtained a commitment from the United States to provide \$150 million of development loans over an unspecified time period, whereupon the Korean Government began agitating to have the full amount committed within one to two years. At about the same time the decision was made to construct concurrently three large fertilizer plants costing some \$130 million. Two were to be financed by U.S. aid and American private capital; the third was financed by Japanese private capital. These three plants were all completed and in operation by mid-1967.

The next measure to stimulate savings and thus support higher levels of investment was the general increase in interest rates which is discussed below. This was approved by the National Assembly in August, 1965 and implemented at the end of September. Finally, the normalization of relations with Japan was agreed to in June, 1965, approved by the National Assembly in August and signed in December. This agreement provided for an inflow of \$800 million of goods and services from Japan to Korea over a ten year period. It was to consist of \$300 million of property claims, the same amount of commercial loans and \$200 million of public loans. The fastest moving portion has been the commercial loans.

The Government also accelerated the approval process for external financing and reduced the degree of Government involvement in the investment decision-making. It would be incorrect to give the impression that the Government adopted a laissez-faire position on private investment. Rather it moved back from a pattern of detailed consideration of every such project to a concentration on the major projects. The burden of responsibility for conceiving of and developing the smaller-scale projects was shifted to the private investors, both domestic and foreign. Government retained the right of approval for all projects and National Assembly approval was required for those projects on which foreign repayment was guaranteed by the Korean Reconstruction Bank.

TABLE XI
Approvals of Foreign Loans and Investments
(in millions of dollars)

	<u>Commercial Loans</u>	<u>Public Loans</u>	<u>Direct Investment</u>	<u>Total</u>
1959		12.3		12.3
1960		5.0		5.0
1961		3.1		3.1
1962	1.8	52.5	.6	54.9
1963	54.0	9.5	5.4	68.9
1964	61.8	37.9	.8	100.6
1965	83.7	76.6	22.6	182.3
1966	128.6	151.3	13.5	295.4
Total	329.9	348.2	42.9	722.5

Source: Economic Planning Board, Major Economic Indicators, March 1967.

This often led to a considerable amount of politicking and payoff of key Assembly members and government officials, but the administration managed to push a large number of approvals through the Assembly in 1965 and 1966.

These measures to increase available savings together with improved stability of prices and the exchange rate and continued high growth of exports and GNP which strained existing productive capacity, generated both the means and the inducements for the sharp rise in investment in 1966 and 1967. It is nevertheless remarkable that there has not been more difficulty in carrying out high levels of investment in those years. But the construction industry has apparently been able to expand rapidly in response to the growth of demand, and much of the machinery and equipment for new investment has been imported thereby not resulting in demands on the domestic economy. Finally because of the continued growth of export earnings, the initially very low level of foreign debt, and the current availability of foreign capital, the Government has been able to let imports absorb most of the potential inflationary pressure which might have resulted from rising investment.

It is still too early to assess the efficiency of this recent investment being financed by foreign capital, but one gains the impression that the private decision-makers are basing their assessments on reasonably conservative estimates of prices and costs, and that they are not expecting extensive government subsidy or protection in the future. There is now occurring some defaulting on payments to foreign lenders by the private Korean borrowers, so that the Korean Reconstruction Bank which guaranteed most of this type of loans, is being forced to cover the repayments. Such defaulting is not clear evidence, however, that the borrowings have been used for inefficient investment. It may merely reflect, at least in some cases, that the repayment terms were unrealistic or even conceivably that the borrowers are forcing the KRB to refinance their foreign loan so they can use current revenues for financing new investment.

The main problem areas seem to be those where investment is not being carried out rapidly enough rather than too rapidly. These are the infrastructure sectors of electric power, transportation and water supply where serious shortages were experienced in 1967. In both power and transportation, extensive sectoral studies carried out by foreign experts in 1965 and 1966 had greatly underestimated the growth of demand. Furthermore the investments in these sectors, which were being financed by foreign governments or international agencies, were moving so slowly that the Korean government was forced to take emergency measures to increase supply and curtail demand. It was also considering greater use of non-governmental loans for such projects in the future primarily to expedite implementation.

Raising Domestic Saving

The orthodox approach to increased domestic saving is based upon the propositions that the amount of voluntary private saving will be very limited and that which will occur will be done mainly by the higher income groups out of expanding profits. Consequently the main emphasis should be on expansion of government revenues but with some tax incentives for the most likely sources of private saving, or, if these are judged inadequate, to resort to inflation. Also the development of specialized institutions - insurance companies, savings associations, securities markets, etc. - which facilitate private saving by the higher income groups is commonly encouraged. On the other hand it has generally been assumed that private savings are not very responsive to changes in the interest rate in poor countries. Even staunch advocates of the positive role of financial institutions in encouraging savings were very cautious in their prediction of what might be accomplished by raising interest rates and strengthening institutions in Korea. (Gurley, Patrick, Shaw, p.). They tended to support higher interest rates as much for the potential effect as on ion of savings.

TABLE XII

Real Growth of Time Deposits, Bank
Loans and Money Supply 1960-67.*

<u>End of</u>	<u>Time Deposits</u>		<u>Loans</u>		<u>Money Supply</u>	
	Amt.	Index	Amt.	Index	Amt.	Index
1960	5.4	100	30.2	100	21.9	100
1961	7.9	146	31.8	105	27.6	126
1962	13.3	246	38.6	128	29.6	135
1963	11.3	209	39.6	131	25.0	114
1964	9.9	183	33.4	111	21.4	98
1965						
June	10.9	202	35.0	116	21.7	99
December	17.3	320	42.4	140	25.3	115
1966						
June	24.6	455	48.4	160	24.9	114
December	35.2	652	54.0	179	28.6	130
1967						
June	48.4	896	67.2	222	30.1	137

*Deflated by the wholesale price index to 1960 prices.

Source: Bank of Korea, Monthly Statistical Review.

the Korean Government, after first having tried credit expansion and inflation in 1962-63 and then having undergone the trauma of a severe stabilization experience in 1963-64, finally in 1965 raised interest rates on bank time deposits to a maximum of 30 percent, or a real rate of over 20 percent per annum (allowing for recent and probable inflation), and instituted a campaign to promote savings in the existing banking system. This resulted during the subsequent two years in a four-fold increase of such deposits or by an amount equal to about 13 percent of the average GNP for that period. These measures were also a significant factor in raising the domestic saving ratio from 7.6 percent to 11.7 percent in one year (from 1965 to 1966). The banking system was resuscitated and replaced the unorganized money market as the primary source of loanable funds.

Public revenues also expanded significantly in 1965 and 1966, but in large part this was a recovery from the decline in the ratio of revenues to GNP that occurred in the two previous years. The increase in government savings that has taken place in recent years has been achieved as much by cutting back on the real level of government consumption expenditures as by adding to revenues. This decline in government consumption resulted mainly from the inflation in 1963 and 1964 when government salaries were not adjusted to the rising price level. Beginning in 1966 some increase in salaries was provided and this is continuing so that growth of government savings is constrained accordingly. Thus the critical factor in raising the national saving rate and supporting the high level of investment was and will probably continue to be the interest rate change and related measures affecting private saving.

Removing the Import Constraint

The most common solution to the import constraint has been to accelerate the import substitution process so as to reduce, or at least avoid increases in the ratio of imports to GNP. Although there has been growing

TABLE XIII

Government Taxes, Saving and Consumption as Percent of GNP*

	<u>Total Government Taxes</u>	<u>Government Saving</u>	<u>Government Consumption</u>
1960	10.0	-2.9	14.4
1961	9.6	-2.6	13.5
1962	11.3	-2.4	14.2
1963	9.3	-1.0	11.2
1964	7.8	0	8.9
1965	9.2	1.2	9.4
1966	10.2	2.3	10.2

*Based on the GNP series in current prices rather than constant prices as in earlier tables.

Source: Tax series is from Economic Planning Board, Major Economic Indicators, March 1967. Government saving series is derived from Revision of National Accounts, 1953-66.

concern among students of economic development over the efficiency of rapid import substitution, there has also been widespread skepticism about the expandability of exports by the developing countries. Confronted with this dilemma, most countries have been advised to follow a selective approach of import substitution and export expansion guided by comparative advantage.

Korea followed a purely import substitution strategy in the 1950's and rapidly reached the barriers of inefficiency which contributed to the declining growth rates at the end of the decade. In the 1960's, the dominant strategy has been export expansion, especially for manufactured goods destined for developed countries. This has resulted in a seven-fold increase in commodity exports from 1960 to 1966, and a rise in the ratio of goods and services exports to GNP from 4 percent to 11.4 percent during the same period. The import ratio, which had declined as a consequence of import substitution, reduced foreign aid and slower growth, has recently been rising in response to the high import needs of both exports and investment. There has been some continuing import substitution in such heavy industries as fertilizer, cement and synthetics, where rapid growth of demand has created markets for new production without elimination of competitive imports. But in some less efficient industries import substitution has been restrained by Government to avoid burdening export industries with high cost intermediate goods. Export producers continue to be given unlimited access to imported intermediate goods free of all import duties and financed under favorable credit terms. Only the domestic consumers buy from the high cost domestic producers.

The expansion of exports was encouraged initially by devaluation and granting exporters favored access to tightly controlled imports. Subsequently in 1965 import controls were relaxed and the excess profits from import quotas largely disappeared. Export incentives were then shifted mainly to favored access to both low

TABLE XIV

<u>Balance of Payments</u>						
(million of dollars)						
	1960		1963		1966	
	Receipts	Payments	Receipts	Payments	Receipts	Payments
Goods and Services	117	379	176	578	455	778
Goods	33	305	87	497	250	680
Services	84	74	89	81	205	98
Net Goods and Services		262		403		323
Transfers	282	6	266	7	227	8
Private	21	1	57	5	103	6
Government	261	5	209	2	124	2
Net transfers	276		260		220	
Capital						
Private	1	3		61		184
Government	13			28		34
Central Bank		3		56	119	
Net capital and error	14			145		99

Source: Bank of Korea, Economic Statistics Yearbook.

operating and investment costs in industries producing for export. A secondary source of incentive was tax exemption, especially on imported raw materials which were to be used for export production. It should be noted that, whereas the more general investment incentives of low interest rates and tax exemption were curtailed, such incentives were made available to those producing for export and, in so far as possible, were tied specifically to export activities. These differential incentives as between producing for export or for the domestic market were probably equivalent to about 10-15 percent in the selling price of the average commodity.

Foreign exchange earnings related to the Vietnam war have assumed significant proportions since 1966. In that year exports of goods and services from Korea to Vietnam are reported to have been \$36 million or 8 percent of total current account receipts. Remittances from civilian and military personnel stationed in Vietnam were another \$23 million or nearly one fourth of private transfer receipts. In the first half of 1967 such earnings were running about double the 1966 rate, so they may reach \$120 million out of prospective total current account and private transfer receipts of perhaps \$800 million, or nearly 15 percent of such receipts. Thus while the effects of the Vietnam war on Korea's balance of payments are growing, they have not yet become a dominant factor nor, with the growth of regular exports or foreign capital inflow, are they likely to become so.

The Korean Government played a very active role in promoting exports. It set high targets for the growth of exports and then raised these targets further as performance exceeded expectations. The targets were broken down into sectoral and even plant quotas and producers were exhorted and assisted in various ways to meet and exceed their quotas. Also the Korean embassies and consulates abroad were given quotas and pushed into export promotion. Thus exports became a national campaign carried out jointly by Government and

business. It was a campaign in which the proximate indicators of success, the actual levels of exports, were clear, although the more difficult measures of real costs and benefits to the economy were somewhat less certain. Nevertheless the balance of payments was obviously strengthened, industrial production and investment were stimulated, profits and employment grew and the Government was encouraged by these tangible indicators of achievement.

In essence, Korea has relied upon the efficiency and speed of private investment decisions and private capital inflow, the expansion possibilities of manufactured exports, and the interest elasticity of private savings as the three main devices for overcoming barriers to growth. It would be incorrect to imply that these were the only elements of the growth strategy or that they were responsible for all the growth and structural change which has occurred. But they have probably made the difference between good and exceptional performance.

The Korean development strategy, emphasizing demand-oriented investment, inducements for private foreign capital, high interest rates for private saving and incentives for exports, had important political implications which were quite different from those associated with the more customary strategy. Whereas the traditional emphasis involves government allocation of under-priced foreign assistance funds and import licenses, as well as strong tax enforcement and high tariffs on imports, the Korean program has generated larger amounts of more realistically priced foreign exchange with less need for government allocation, and a system of rewards for savers and exporters. This has transformed the role of government to some extent from that of policeman to that of partner. The Government has helped to secure additional commitments of foreign financing; it has raised the incomes of those who save and those who produce for export; it has been active in trying to remove the barriers to obtaining raw materials, finding export markets, and generally

improving the efficiency of operations of export producers. There are still many areas in which the Government seems to be more an adversary than an associate, but the balance has shifted to a degree and effects on the attitudes of the general populous toward the bureaucracy have been favorable.

It has obviously been difficult for the bureaucracy to give up many of the sources of income deriving from controls over import licensing and bank lending, especially at a time when government salaries had not recovered from recent inflation. That the Government was able to cut back on such controls and develop a more positive relation with the private sector was probably due to strong Government leadership, a nationalistic or public spirited response of the bureaucracy when they saw that the changes were actually accomplishing something in terms of growth, and undoubtedly some ingenuity in discovering new sources of income to replace that previously derived from administering the controls.

Economic Planning

Economic planning has recently achieved an important economic and political role in Korea. During the Syngman Rhee era such planning was viewed as socialistic or communistic and eschewed as a symbol of the evils of North Korea. The military government was committed to longer-term planning, but its early efforts were hurried and poorly formulated so that numerous revisions were necessary and the public had little confidence in the process. Despite this background the formulation of the Second Five Year Plan in 1965 and 1966 proved to be a significant factor in drawing together the forces for political and economic development. There was much public interest in the Second Plan, when it was issued, and the Government was generally credited with having produced a reasonably honest assessment of past progress and failures and a credible plotting of the future.

ating the Second

from that of the First. The earlier Plan prepared on a crash basis in 1961 after the military coup, had combined some arbitrary estimates of overall growth with a detailed listing of prospective projects resembling the proverbial shopping list. The Second Plan was less concerned with the overall growth rate. Instead it gave greater emphasis to the growth paths of the various productive sectors, the main lines of policy, the criteria for investment, and left many of the specific decisions about individual projects for subsequent consideration. This approach was compatible with increased reliance on private investment decisions by both Koreans and foreigners. It was also realistic in light of the expectations of continuing high growth and structural change, but with considerable uncertainty about relative rates of change.

One of the main factors contributing to this uncertainty was that as the Plan was being prepared the national income and product accounts were concurrently undergoing a series of revisions to correct for some serious past errors in estimation. This meant that there were no consistent and reliable longer-run time series of the principal statistics for projecting many of the critical variables affecting growth. While this is generally a serious handicap for planning it may have been somewhat less critical at the particular juncture of Korean development because of the major structural changes which were occurring in 1965 and 1966. If there had been better information on the paths over which the economy had moved in the past, there might have been less inclination to accept some of the more optimistic prospects of future development.

It had been generally accepted that the growth target of the First Plan, an average annual increase of GNP of 7.1 percent, was derived not from any serious economic analysis, much less from extrapolating past trends, but was set, on political grounds, slightly above the North Korean growth target of 7 percent. After the South Korean Plan was made public at the end of 1961,

it was criticized by the World Bank and an American consulting firm as being unrealistic. Consequently Korean planners undertook to prepare a revised version of the Plan which was completed in 1964 based on a 5 percent growth target. It is clear that these targets had little impact on the actual performance of the economy or the policy and allocation decisions of the Government. Of greater significance may have been the political consequences of having acknowledged that the Plan was unrealistic. Subsequently, however, this process was reversed because the actual growth rate rose, from 1963 on, and by 1965 it appeared that the growth targets of the original 7.1 percent Plan were likely to be exceeded. The Government thereupon forgot about the downward revision and began to claim credit for the success of the original Plan.

All of this "Plansmanship" did little to engender confidence in the planning process. It is all the more significant therefore that the Second Plan received as favorable a reception as it did in the academic, press and business communities. Despite some initial criticisms from the World Bank that the output, export and domestic savings targets were too high, most knowledgeable Koreans were inclined to assume that progress in these key areas would not diminish and that plan targets were attainable. Leading officials, including the President, were desirous of setting attainable targets for the Second Plan so they would not subsequently be charged with failure, but they were also unwilling to be timid.

Perhaps the key role of the Second Plan was that it served to confirm to the Korean populace that the very recent indications of good performance of the Korean economy were reasonably accurate and furthermore that this was not just a transient phenomenon -- an upswing of a cycle -- but was a new longer-run trend that could lead the country to much greater well-being

of most Koreans about the viability and growth potential of the South Korean economy, and also a justifiable suspicion of official statistics as being adjusted to serve the particular interests of those in power. But the people -- even the outspoken critics in the press and academic community -- seemed to have more confidence in the reliability of, and motives behind, the Second Plan. They could perceive signs of improved conditions in their daily lives. The Plan acknowledged some of the deficiencies of current statistics and was based mainly on those statistics which seemed more reliable such as the new interindustry tables and foreign trade statistics. Many persons were involved in the preparation of the Plan including various foreign advisory groups and some academic economists and planners, so that it was not simply another government document conceived in secret. The public, although not extensively involved in the plan formulation process was at least made aware over a considerable period that the Plan was in preparation and also what some of the main lines were likely to be. Then after the Plan was issued, the senior planning officials carried out an effective program to explain and support it. Finally the projected targets did not seem unreasonable in view of the changes then occurring in the economy.

The Plan indicated that, if these very recent trends continued, the country could bring its internal and external (or saving and import) gaps down to manageable proportions, terminate dependence on U.S. grant assistance and still achieve roughly a 20 percent increase in per capita consumption over the Plan period. Such accomplishments would have surely been judged incredible or unrealistic one or two years previously. But the expectations embodied in the Plan were given further backing by the very high growth of the economy in 1966 so that, even before the new Plan period started in 1967, consideration was being given to raising the targets by as much as 50 percent. This was a very different popular reception from that given to the First Plan.

Conclusion

The return to civilian government and the achievement of consistent high levels of economic growth were the two prominent trends in Korean development after 1962. They proceeded together and interacted greatly upon one another. The significance of the changes in the economic and political development spheres respectively, however, were of a different nature. In the economic area, there was a "quantum jump" from a condition of stagnation and dependency to one of high levels of growth and rapid reductions in the relative importance of concessionary aid. These changes were being sustained by structural reforms, revitalization of key institutions such as the banking sector, less restrictive and more effective administration of economic affairs and more relevant economic planning. In the political area, institutional changes were less sweeping. But, of overriding significance, the period saw the solution of one of the major postwar problems of Korean political development. Influenced most of all by the economic transformation taking place, the belief in a South Korean state -- one that would not only survive but grow as an independent political and economic entity -- became widespread. For the first time this formed the basis for setting national priorities and for popular response to political issues. It thus laid the basis for the achievement of a genuine political consensus by 1967 based on national development, and for the accommodation of political disputes which threatened political stability and the continuation of this development.

The main accomplishments in the direction of economic development had been achieved by strong Government actions in organizing the resources to modernize agriculture, changing the incentive structure for industrial production and investment, and marshalling the resources for investment. Some of these measures were viewed with skepticism or openly opposed when instituted, but,

The programs and policies were designed to correct extreme imbalances in the economy and put the country on a high growth path in a hurry. This they have succeeded in doing. The results attest to the general soundness of the policies which had been mainly conceived by the civilian technicians in the Government. But the implementation of these strong measures depended, at least initially on the strength and authoritarian instincts of the Government. Subsequently as popular attitudes and practices adapted to the policies -- as farmers have come to recognize the benefits of mixed fertilizer and limestone, or as savers have shifted their patronage from the unorganized savings associations to the banks -- the Government has softened its approach. Thus the populous has not only benefited from the growth of output and income, but has witnessed a liberalizing of government actions and is gaining increasing confidence that these two trends will continue.

While it would appear that the structural relations of the economy have been realigned in a pattern which would support high growth and rapid elimination of the need for concessional foreign capital, and thus greater economic and political independence, there are a number of danger signals and potential pitfalls of a predominantly economic nature which could undercut the new pattern.

While the growth of exports must eventually slow down, the economy is now preparing for rapid expansion over the next few years. If any major new barriers to Korean exports were imposed these plans could be frustrated and the investment boom terminated. Fortunately Korea is still a small enough supplier in most markets to avoid actions directed specifically against its commodities. Also Korea has not yet penetrated the protective barriers around Japanese manufactured goods. If these barriers should be reduced, as a result of direct Korean efforts or broader UNCTAD negotiations, Korean exports would receive a major new stimulus. Still over the longer run, the export prospects seem promising and as the export levels reach 15 to 20 percent of GNP, the emphasis should shift to more balanced expansion of exports and import substitutes or

new products for the domestic economy.

Continued expansion of public revenues will be needed to support the large army, raise compensation levels of both the army and the bureaucracy, and support part of the costs of public investment. It will be easier to raise such revenues if personal income is growing rapidly and the public is satisfied with the general performance of government and the specific benefits deriving from the public expenditures.

Although the statistics are not available to see clearly what has been happening, it is obvious that the entrepreneurial group has been expanding and improving its overall efficiency at a rapid rate. Also employment in industry and services has been rising at probably 10 to 15 percent per year. It is difficult to foresee any shortages of entrepreneurs, technicians or workers with special skills, but these could conceivably arise and begin to impinge on growth. Also the evolution of the industrial labor force in regard to the degree of unionization and the pressure for higher real wages may create tensions within the society and affect the inflow of foreign investment. So far real wage rates have not increased very much and the main benefits which workers have gained from rapid growth have been through increased employment. This will probably continue for several years. However, as the margin of unemployed is reduced, the pressures for wage increases will build up. While the economy should then be able to accomodate rising wages, the test may be over the manner in which they are achieved.

This listing of what appear to be the major economic problems for the future shows that most such problems are not as yet very well defined or pressing. There are some current difficulties of management and balance in an economy that is moving ahead so rapidly but these should be expected and should be manageable so long as the commitment to development and a sufficient degree of political order can be maintained.

Much of the new political stability and the concentrated attention on economic problems, has nevertheless rested upon the strong leadership and balancing ability of President Park who is constitutionally barred from re-election in 1971. The degree to which this new approach and emphasis has become institutionalized in the political process is still questionable, although undoubtedly some steps in this direction have been taken. The strengthening of the professionally-oriented bureaucracy and its increasingly sophisticated management of economic affairs is one of these steps. The bureaucracy, and a growing body of senior civilian administrators of general rather than partisan prestige, provide a potential ally to any Executive desiring to maintain this developmental emphasis against narrowly partisan interests. On the other hand, the political parties which should carry much of the burden of translating the recent change in outlook into political practices and principles have not been in the forefront of recent developments. The Government party, quite strongly organized, has performed a very valuable role in providing the Government the legal means for carrying its programs through the legislature and also as an absorptive element for the various interests that have sought accommodation with the new Government. The Opposition, for all its internal agonies, has served as a reasonably congealed form of dissent at critical junctures. But the parties remain the repository of factional rather than national or even identifiable group interest. Formed from the top, with more opportunistic than ideological bonds holding them together, they were the bete noire of the rigged legislative elections of 1967 which seemed such a throwback to politics of an earlier era.

The military also remains a key problem. Having entered politics once, and established thereby a channel for continuing influence in politics, the military is unlikely to remain indifferent to the election of a regime hostile to it or to any major crisis in national stability. The present Government

Party channels, it has thus been able to protect its rear, so to speak, as it gradually accepted the restraints and intricacies of civilian government. But to the degree that the Government remains a special outlet for military influence, it weakens its ability -- particularly that of the Government Party -- to establish itself as a predominantly popular-based institution. On the other hand, the more it does seek to represent a set of specific civilian interests the more it risks its special relationship with the military and thus one of its greatest assets, i.e., the ability to assure the country civilian rule free from the threat of direct military intervention. The opposition has a similar problem. By challenging the Government on the latter's close military ties, it appeals to many elements who favor more civilian and more democratic politics. But at the same time it raises the question in many minds as to whether the Opposition could survive in power. This was likely a significant factor in its loss in the last two elections.

The size of the Korean military presents a special problem in itself. Until recently the costs of this 600,000 man force were largely borne by US aid. But reductions in US economic and military assistance in recent years have pushed this cost increasingly on to the Korean economy. The reduction of forces was a very touchy and dangerous issue for the Chang Myon Government of 1960 and will be for any regime in the future. Yet it may loom large as soon as the Vietnam war ends when two divisions of Korean troops, now funded by special US aid related to Vietnam, return home.

The parties, the legislature, and other civil institutions are thus all weak in development compared to the military and the bureaucracy. They are also less well developed in some respects than the press and the students who -- on questions of political liberty -- are probably more influential than any other civil institutions. But the weakness of these institutions will not

recent emphasis on national -- and particularly economic -- development which had created such a new tone in national politics by 1967.

Economic emphasis in the future cannot be expected to have quite the same impact on politics as in the recent past when the basic question of whether Korea could go anywhere economically was being answered. But it is also true that economic growth is now accepted as a tangible reality, and will remain for some time as one of the few tangible bases for national consensus. Thus maintaining relatively high rates of growth will continue to be one of the major political requirements of any regime. This has two important ramifications. One is that the civilian administrators and the bureaucracy -- and increasingly private economic groups such as business -- will have to have prominent roles in any future government. Without a very major crisis, in other words, a return to a purely military experiment, such as that of 1961-62, is unlikely. Second, it puts practical limitations on the uses to which the economic assets of the country can be subverted to strictly partisan political use. It is questionable for example, that a repetition could occur of the Liberal Party excesses of 1958-60, when nearly all government operations and leverage were turned toward retaining the Liberals in power at serious cost to the economy. Finally, as long as economic development remains a major political factor, there will be a continuing incentive for accommodation between the authoritarian drives of a strong Executive and the volatile defense of democracy among the press and intellectual community in the mutual desire to stave off serious instability. However valid it may be in fact -- and in Korea's case it has some validity -- the belief is widespread in Korea that political stability has been one of the major factors in the recent economic upsurge.

Economic development, moreover, is unlikely to produce serious divisive or destabilizing effects in the course of the next five or even ten years.

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This competition is already handled rather effectively through the Assembly -- which at least vocalizes a strong rural interest while subject to all the pressures of rapidly expanding urban/industrial interests -- and within the Executive. Other special interest groups are unlikely to become very strong. Labor is kept weak by Government control and by the pressures of unemployment which discourage a heavy push on wages. Small farmers could become a serious economic problem as the agricultural sector continues to modernize. But the opportunities for political organization among them are slim, and the lure of the urban areas will provide a continuous outlet. Expanding business opportunities are beginning to relieve the pressure for satisfying the job requirements of the large number of college graduates. In other words, for several years to come, overall economic development -- which touches most groups -- will continue to be more a basis for consensus than the source of divisive competition. The economic theme can thus continue to be a stabilizing and constructive force in politics.

Looking to the future, therefore, general economic growth and maintenance of at least minimum democratic processes will remain the two principal parameters of Korean political development and stability for some time. They will remain so in largely general terms with qualitative questions of development (such as the distribution of income) and more definitive concepts of democratic rule (such as a more complete freedom of ideas and organization beyond the formal political structure) only slowly becoming influential in shaping and differentiating political organizations and outlook. In part this reflects the lack of firmly organized economic interest groups and in part the still vague and generalized ideas of both the political and academic leaders about the desirable future of Korean politics. This provides over all a rather positive if still not sharply defined framework for the further development

and stability of development along these lines will depend for some time still on the skills and commitments of the leadership, particularly that which succeeds to power in 1971.